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ORIGIN EB-07

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-06 NEA-09 ISO-00 FEA-01

AEC-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

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PM-03 RSC-01 SAM-01 OES-03 SP-02 SS-15 STR-01 TRSE-00

FRB-03 TAR-01 DOTE-00 FMC-01 CG-00 COA-01 DLOS-03

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FM SECSTATE WASHDC

TO AMEMBASSY CANBERRA

INFO ALL OECD CAPITALS

AMEMBASSY PARIS

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AMEMBASSY MONROVIA

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AMEMBASSY PANAMA

AMEMBASSY JIDDA

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SUBJECT:USG POSITION ON CARGO PREFERENCE LEGISLATION

REF:A)CANBERRA 0360; B)CANBERRA 0497

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1. SUMMARY: IN VIEW OF THE USG POSITION OF DISCOURAGING COMMERCIAL CARGO PREFERENCE IN SHIPPING FOR REASONS OF ITS INFLATIONARY IMPACT AND FOREIGN POLICY CONSIDERATIONS AS MANIFESTED BY PRESIDENT FORD'S POCKET VETO OF THE ENERGY TRANSPORTATION SECURITY ACT OF 1974 ON DECEMBER 30, 1974, IT IS APPARENT THAT THE USG SIMILARLY VIEWS WITH DISAPPROVAL COMMERCIAL CARGO PREFERENCE SCHEMES OF OTHER NATIONS, SUCH AS THE AUSTRALIAN PLAN FOR 40 PER CENT OIL CARGO PREFERENCE. END SUMMARY.

2. FROM REFTELS, IT IS NOT CLEAR WHETHER IMPLEMENTING LEGISLATION IS REQUIRED IN ORDER TO CARRY OUT THE PROVISIONS OF OIL-CARGO PREFERENCE. THE TEXT OF THE TRANSPORT MINISTER'S STATEMENT, NOT YET RECEIVED, MAY SPELL THIS OUT. IN ADDITION TO CLARIFICATION ON THIS POINT, THE DEPARTMENT REQUESTS INFORMATION, TO THE EXTENT AVAILABLE, ON WHAT COUNTRIES WILL BE AFFECTED BY SUCH RESTRICTIVE PRACTICES IN VESSEL OWNED OR REGISTERED THEREIN AND WHAT, IF ANY, COMPLAINTS THEY HAVE VOICED. (FYI: DEPARTMENT NOTES THAT ISSUE OF GOA OIL CARGO PREFERENCE IS MATTER OF CONCERN TO UK GOVERNMENT AND WAS RAISED BY UK AT MARITIME TRANSPORT COMMITTEE MEETING OF OECD JAN. 23 AND 24. END FYI). EARLY CLARIFICATION OF THESE POINTS WILL ASSIST THE DEPARTMENT IN THE FORMULATION OF POSSIBLE DEMARCHE TO THE GOA CONCERNING USG/GOA MARITIME RELATIONS.

3. THE RECENT CARGO PREFERENCE LEGISLATION PASSED BY THE 93RD CONGRESS (THE ENERGY TRANSPORTATION SECURITY ACT) WAS POCKET VETOED BY PRESIDENT FORD ON DEC. 30, 1974. AMONG OTHER PROVISIONS, THE ACT WOULD HAVE REQUIRED THAT BY 1977, THIRTY PER CENT OF ALL OIL IMPORTED INTO THE U.S. BE TRANSPORTED IN PRIVATELY-OWNED U.S. FLAG VESSELS. THE ADMINISTRATION'S GENERAL OBJECTIONS TO CARGO PREFERENCE ARE SET FORTH IN THE PRESIDENT'S VETO MESSAGE, PART OF WHICH IS HEREIN QUOTED.

QUOTE

THIS BILL WOULD HAVE THE MOST SERIOUS CONSEQUENCES. IT WOULD HAVE AN ADVERSE IMPACT ON THE UNITED STATES ECONOMY LIMITED OFFICIAL USE

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AND ON OUR FOREIGN RELATIONS. IT WOULD CREATE SERIOUS INFLATIONARY PRESSURES BY INCREASING THE COST OF OIL AND RAISING THE PRICES OF ALL PRODUCTS AND SERVICES WHICH DEPEND ON OIL. IT WOULD FURTHER STIMULATE INFLATION IN THE SHIP CONSTRUCTION INDUSTRY AND CUT INTO THE INDUSTRY'S ABILITY TO MEET SHIP CONSTRUCTION FOR THE U.S. NAVY.

IN ADDITION, THE BILL WOULD SERVE AS A PRECEDENT FOR

OTHER COUNTRIES TO INCREASE PROTECTION OF THEIR INDUSTRIES RESULTING IN A SERIOUS DETERIORATION IN BENEFICIAL INTERNATIONAL COMPETITION AND TRADE. THIS IS DIRECTLY CONTRARY TO THE OBJECTIVES OF THE TRADE BILL WHICH THE CONGRESS HAS JUST PASSED. IN ADDITION, IT WOULD VIOLATE A LARGE NUMBER OF OUR TREATIES OF FREINDSHIP, COMMERCE, AND NAVIGATION.

ALTHOUGH THIS BILL WOULD UNDOUBTEDLY BENEFIT A LIMITED GROUP OF OUR WORKING POPULATION, SUCH BENEFIT WOULD ENTAIL DISPROPORTIONATE COSTS AND PRODUCE UNDESIRABLE EFFECTS WHICH COULD EXTEND INTO OTHER AREAS AND INDUSTRIES. THE WAIVER PROVISIONS WHICH THE CONGRESS INCLUDED IN AN EFFORT TO MEET A FEW OF MY CONCERNS FAIL TO OVERCOME THE SERIOUS OBJECTIONS I HAVE TO THE LEGISLATION. UNQUOTE.

4. SINCE THE PRESIDENT'S POCKET VETO CAME AFTER THE 93RD

CONGRESS HAD ADJOURNED, ALMOST IDENTICAL LEGISLATION HAS BEEN INTRODUCED IN THE HOUSE OF REPRESENTATIVES IN THE 94TH CONGRESS. THE DEPARTMENT'S POSITION ON CARGO PREFERENCE HAS NOT CHANGED AND WE INTEND TO OPPOSE THE NEW LEGISLATION.

5. WE HAVE MAINTAINED THIS POSITION ALTHOUGH LEGISLATION EXISTS AMONG THE BELOW LISTED NATIONS WHO RESERVE ALL OR PART OF THEIR NATION'S COMMERCIAL TRADE FOR THEIR OWN FLAG VESSELS: ARGENTINA (RESERVES 50 PERCENT FOR ALL CARGO); BRAZIL (RESERVES 50 PERCENT OF ALL COFFEE AND COCOA EXPORTS); CHILE (RESERVES 50 PERCENT OF EXPORT-IMPORT TRADE); MOROCCO (RESERVES 40 PERCENT IMPORTS AND 30 PERCENT EXPORTS); PAKISTAN (RESERVES 50 PERCENT OF ALL LIMITED OFFICIAL USE

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TRADE); PERU (RESERVES 20 PERCENT OF TRADE WITH THE U.S., SOON TO BE 50 PERCENT); SPAIN (RESERVES ALL OIL IMPORTS); ALGERIA (RESERVES 50 PERCENT EXPORT OF OIL AND LNG); VENEZUELA (EVENTUALLY WILL RESERVE 50 PERCENT OF EXPORTED OIL); FRANCE (RESERVED 66 PERCENT OF OIL IMPORTS); JAPAN (RESERVES 50 PERCENT OF OIL IMPORTS). THE DEPARTMENT HAS BY VARIOUS MEANS COMMUNICATED TO THESE COUNTRIES ITS DISAGREEMENT WITH THESE POLICIES WHEN THEY AFFECT COMMERCIAL SHIPMENTS. THE DEPARTMENT, HOWEVER, HAS NOT OBJECTED WHERE THE OIL IMPORTING AGENCIES ARE GOVERNMENT ENTITIES. AUSTRALIA IS THE FIRST MARKET ECONOMY NATION TO COME TO OUR ATTENTION THAT IS INSTITUTING THE CONCEPT OF CARGO PREFERENCE WITHIN A CONTEXT OF COMMERCIAL OIL IMPORTS.

6. THE RECENTLY NEGOTIATED CODE OF CONDUCT FOR LINER CONFERENCES REQUIRES THAT LINER CARGO BE SHARED ON A 40-40-20 BASIS BETWEEN VESSELS OF THE EXPORTING AND IMPORTING NATIONS AND THIRD-FLAG VESSELS. SO FAR, THE SIGNATORIES TO THE CODE ARE THE PHILIPPINES, IRAN, GABON, ECUADOR, GUATEMALA, AND YUGOSLAVIA. HOWEVER, THE CODE IS A LONG WAY FROM COMING INTO FORCE. THE USG HAS OPPOSED THE CODE AS PRESENTLY WRITTEN BECAUSE, INTER ALIA, IT CONTAINS A STRUCTURED (40-40-20) CARGO PREFERENCE SCHEME.

7. EMBASSY CAN DRAW UPON ABOVE FACTS TO CLARIFY ANY MISCONCEPTIONS ABOUT USG POSITION ON COMMERCIAL CARGO PREFERENCE IN DISCUSSIONS WITH CALTEX.

8. FYI: WHETHER OR NOT THE DEPARTMENT DECIDES TO MAKE REPRESENTATIONS TO THE GOA, IT IS THE HOPE OF THE USG THAT THE GOA WILL NOT DISCRIMINATE AGAINST ANY CARRIER TRADING IN THE AUSTRALIAN OIL MARKET AND THAT IT WILL NOT EXTEND ANY SUCH POLICY TO TRADE IN OTHER COMMODITIES. END FYI. KISSINGER

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